

The governor's Condition of the State Address, as prepared for delivery, is as follows:

Madam Lt. Governor, Madam President, Mr. Speaker, Leaders, justices, judges, legislators, elected officials, distinguished guests, family, friends and fellow Iowans.

It is an honor and a privilege to serve as your governor. I thank God, each and every day, for the opportunity that has been provided to me to serve you and all the people of Iowa.

I stand before you once again to report on the condition of our state and to outline a focused agenda and a biennial budget.

I am pleased to report we have made great progress. Our state's balanced budget is built on the principles of stability and predictability. It is a shining example of the good work we have done together.

And in the areas of job creation and economic development, I would put our efforts to successfully attract new jobs and market our state both at home and abroad up against the efforts of any state.

Yet, in other areas, an honest assessment would suggest we still have much work to do. In particular, I reference our on-going efforts to reduce property taxes and to adopt a truly transformational educational system.

Iowans are entering a period of unprecedented opportunity and we in this chamber have it within our grasp to help foster this state's greatest economic expansion and quality of life improvement in modern history.

Perhaps the heaviest lift over the past two years was restoring proper budgeting practices and insisting on strict fiscal discipline. I insisted on a two year budget and we measured all tax and spending decisions through the lens of a five year budget projection.

And today, I am once again submitting a biennial budget for fiscal years 2014 and 2015 and ask you to commit to join me in making this sound budgeting practice a reality so those most dependent on the vital services we deliver can trust that promises made are promises kept.

As a result of the tough choices we made, Iowa is currently in the best financial position in our state's long and proud history.

This is not about good luck. This didn't just happen. We blazed our own path by making hard choices and we must never return to the irresponsible budgeting practices of the past.

Our successes do not end with the state budget. We also completely redesigned our state's economic development efforts through the creation of the new Iowa Economic Development Authority, the Iowa Innovation Council, and the Iowa Partnership for Economic Progress.

These efforts have paid big dividends leading to the two largest private capital investments in Iowa history with the construction of new fertilizer facilities in Lee and Woodbury counties.

All totaled, in the two years since this administration took office, our efforts have landed more than \$5.3 billion in capital investments in Iowa. These investments translate into jobs for thousands of Iowans and higher incomes for so many Iowa families.

When I stood before you two years ago Iowa's unemployment rate was over six percent.

Today our unemployment rate is at four point nine percent, the lowest it has been in over four years.

In addition, through the efforts of Lt. Governor Reynolds and University of Northern Iowa President Ben Allen, we launched the Governor's science, technology, engineering and math, or STEM, initiative. This initiative is already enhancing learning opportunities for Iowa children by putting outstanding STEM programs in more than 800 sites statewide.

But our work on education reform has not gone far enough.

We were reminded of this yet again last month when a new study showed our students' ranking on vocabulary tests had slipped into mediocrity.

Let me ask you this very hard question: When did we decide that middle of the pack was good enough when it came to our children's education?

Did we really make that decision or did we simply allow it to happen through inaction?

Let's take the same serious approach we took to solving our budget problems and reshaping our economic development efforts to making our schools the best in the world.

The quality of our children's education impacts everything we do to improve our state. Let's focus on our future, and theirs.

For too many years our young people have looked to the coasts in search of career opportunities. Be it financial industry prospects in the East or the tech sector in the West, Iowa was relegated to a status some disparagingly called "flyover country."

Today, we are living a different story.

Within the past year Iowa has gotten a serious look from the more than 1.3 billion residents of China—many of whom are now very familiar with our state as a result of our special relationship with their incoming president.

It was just a year ago I invited China's next President, Xi Jinping, to visit our state. As you know, he accepted my invitation and many of you were in attendance at the dinner we hosted in his honor at the state Capitol.

Iowa's emerging role in the world economy really struck home to me at the dinner we hosted for Vice President Xi and his delegation.

He said Iowa was the first place in the United States he had ever visited and then said in reference to the wonderful Iowans he met on that trip: “to me, you are America.”

The next day, fittingly, at the World Food Prize building, our state signed an agreement with China to provide more than \$4.3 billion in soybeans.

Iowa no longer merely feeds the world—it feeds the world economy.

Vice President Xi and his delegation’s visit made clear: Iowa is “flyover country” no more.

Today, Iowa-produced avionics are installed in aircraft made in Brazil, Iowa tractor technology ploughs the ground in Russia, and Iowa lighting illuminates growth around the world.

Innovation is propelling Iowa forward, both at home and abroad. The coming decades can be ours if we are bold enough to make these incredible opportunities our new Iowa reality.

This year, I bring to you a bold plan of action focusing specifically on three goals:

- First...job creation and expanding opportunity for Iowa’s families;
- Second...improving educational opportunities for Iowa’s children; and
- Third...improving the health of our citizens.

These are opportunities that not only benefit us, but will reshape the future for our children and grandchildren.

This is our opportunity. This is our Iowa.

In the past two years, Iowa has experienced some success. Family incomes in Iowa have grown at the second highest rate in the nation, at nearly seven percent, and our economy has created 100,000 jobs.

These are nice success stories, but they are only the first chapters in a book of accomplishments that we are still writing. There is more to do because this is our opportunity. This is our Iowa.

When we consider strategies for stimulating our economy to encourage job creation we need to look to find ways to lower the cost of doing business in this state.

This will improve our ability to compete, putting more dollars into the hands of consumers to purchase Iowa goods and services.

Both of these objectives can be accomplished by returning a significant portion of our state’s budget surplus to the taxpayers who made that surplus possible in the first place.

In this budget, I am proposing a significant plan to reform our property tax system to make it competitive and provide nearly \$400 million in actual property tax relief to Iowa’s hardworking taxpayers.

The principles guiding our property tax plan are simple.

- Permanent property tax relief.
- No shift of the tax burden between classes of property
- And property tax reduction for all classes of property.

Our plan has three significant components.

First, the budget fully funds the Homestead Tax Credit and the Elderly and Disabled Tax Credit in fiscal year 2014 with an additional appropriation of \$33 million.

Last year we made a down payment on this funding gap and this year we will close that gap once and for all.

Second, I will propose legislation to permanently change the school finance formula so that “allowable growth” will be replaced by 100% state aid.

No longer will the school aid formula trigger automatic increases in local property taxes.

Third, I will bring forward legislation designed to stop any future tax shifts between classes of property by tying the classes together in one combined rollback, correcting a mistake made when the original rollback formula was implemented back in the 1970s.

This legislation will take the current four percent cap on valuation growth for residential property and agricultural land, cut it in half to two percent, and apply it to all classes of property.

If left unchecked, current law will allow property taxes to grow by over two billion dollars in the next eight years and half of the increase will fall directly on Iowa homeowners. I find that prospect terrifying and ask you to work with me to ensure property taxpayers are protected from this unprecedented property tax increase.

My plan permanently reduces commercial and industrial property tax values by 20% over a four year period and provides direct funding for local governments to replace 100% of the property tax revenue.

My biennial budget provides the resources to make this possible and my five year budget projection accounts for the nearly 400 million dollars in direct property tax relief.

Small businesses in Iowa have paid some of the highest property tax rates in the nation for far too long. These high taxes mean less money for businesses to hire new employees or provide salary increases to their current employees.

The businesses pay the taxes yes, but it is our middle class families who truly feel the pain.

And it is those same middle class families who will reap the benefits of a competitive property tax structure that makes it easier for us to recruit, retain, and grow those companies that create the new jobs our families need.

Our plan to reform and reduce property taxes is an investment in Iowa families and small businesses, but not at the expense of Iowa's local governments.

In addition to lowering and reforming property taxes, I am committed to enhancing the skills of our state's workforce as a critical investment in meeting the needs of Iowa's job creators over the next decade.

To that end our administration has embarked on an ambitious effort called Skilled Iowa to bring new workforce skills to our unemployed, under-employed, and those simply seeking better long-term careers.

The impetus for the Skilled Iowa initiative came from conversations I had with Iowans like Bill Knapp, Jim Cownie, and Teresa Wahlert on how to best bridge the skills gap so many employers have articulated as an impediment to bringing more high quality jobs to Iowa.

Our Skilled Iowa initiative builds on the STEM program to ensure workers in Iowa get the skills they need to fill the high-paying jobs of today and tomorrow.

It is simply unacceptable for me to hear time and again as I travel throughout Iowa's 99 counties that employers are ready to hire, but our workers aren't prepared with the necessary skillset to fill these jobs.

Skilled Iowa is helping to change this and bring new hope to Iowans. We already have 2,400 Iowa businesses signed up for Skilled Iowa and 18,000 Iowans have used Skilled Iowa resources to certify their skills with a National Career Readiness Certificate.

My hope is to grow this program and work with new employers seeking a skilled workforce while serving more Iowans.

Through lower property taxes and a more highly skilled workforce, in addition to our successful economic development efforts, we have an opportunity to stimulate this state's economy and provide our citizens with the high quality careers they truly deserve.

This is our opportunity. This is our Iowa.

And speaking of our Iowa, today in the balconies of this chamber are school children from around Iowa.

Today they get the opportunity to watch democracy in action. I hope they will leave this building with the knowledge that each of us here shares a commitment to making Iowa a better place for them and their families.

In today's knowledge-based, global economy, youngsters must finish high school ready for college or career training.

This is an economic and moral imperative.

We cannot continue to be complacent:

Iowa eighth-graders led the nation in math in 1992. Now, we rank 25th—not because our scores have slipped, but because our scores have been stagnant while other states’ improved.

We are shortchanging some of our best students, too. Just eight percent of Iowa eighth-graders scored at the advanced level in math on the national test compared to 15 percent in Massachusetts, which is number one in the nation.

Among Iowa’s high school class of 2012 who went directly to a community college, more than 36 percent had to enroll in a remedial class.

Let me be perfectly clear to the teachers here today and teachers in classrooms across Iowa, you are NOT the problem.

Iowa is fortunate to have many dedicated educators who work incredibly hard. I know this from visiting Iowa’s schools, and because my daughter Allison teaches in Waukee and the Lt. Governor’s daughter Jessica teaches in Creston.

Unfortunately, our teachers are stuck in a system designed for the 20th century. We must work together to transform Iowa’s schools for the 21st century.

Let’s establish new roles for top teachers who will provide instructional leadership alongside principals to better meet the needs of every student.

That is why elevating the teaching profession is at the heart of our 2013 education plan. It has three key pieces.

The centerpiece of our plan is to revitalize Iowa schools with a new teacher leadership and compensation structure. Relying on teacher leadership is a hallmark of high-performing school systems around the country and around the world.

Iowa has embraced paying teachers in innovative ways before. In 2001, the Iowa legislature passed and Governor Vilsack signed a law establishing a career ladder.

They understood we were losing teachers who found few ways to advance professionally without leaving the classroom. But unfortunately, it was never funded.

Establishing new career pathways promises to do more than raise student achievement. It will offer outstanding teachers new professional opportunities.

Our plan honors teachers by recognizing how vitally important they are and provides five career pathways teachers may pursue.

Educators will be able to advance their careers in the classroom through these numerous pathways. Our plan gives teachers the opportunity to have a meaningful impact as leaders in their schools while also giving our children a better education.

The end result for Iowa children will be better performance in the classroom and better opportunities in their futures.

This kind of reform does come with significant cost, but it is a cost I believe to be a true investment in educational excellence. I am recommending a \$160 million state investment in this new teacher compensation model to keep our best performing teachers in classrooms throughout their entire careers.

And, I believe we should resolve the issue of what we are collectively willing to invest in achievement-driven reform before we spend one minute discussing additional resources to support our existing educational system.

The second piece of our education reform plan – The Teach Iowa Initiative – addresses another key problem: recruiting top students to become teachers. The simple truth is we must attract more of our best students into the teaching profession.

Today, I propose boosting beginning minimum teacher pay from \$28,000 to \$35,000 a year – a 25 percent increase to help reduce the amount of financial sacrifice high-achieving students have to make in order to choose to enter the teaching profession.

Additionally, I propose a significant expansion of a program administered by the Iowa College Student Aid Commission.

Our Teach Iowa initiative attempts to attract more top students into teaching by offering tuition reimbursement for highly talented new graduates who teach in Iowa schools for five years.

Priority will be placed on students majoring in hard-to-hire subjects, like math and science, but awards will also go to future teachers in other majors as well.

And the Teach Iowa Initiative includes a pilot to expand the traditional one-semester of student-teaching to a year-long apprenticeship in partner schools. Stronger clinical experiences stand to better prepare future teachers.

The third key piece of our plan to revitalize education in Iowa is a new college or career ready seal that high school students may earn in addition to their diploma. We want business and education leaders to set high standards for the seals.

Beginning next school year, students will have the option, at the state's expense, of taking a college-entrance or workforce readiness test.

Our program will make it clear what it means to be college or career ready based on the real world expectations of Iowa education and business leaders.

When Iowa can brag about having the best-educated workforce anywhere, more businesses will locate and expand in Iowa. As a result, more young people will stay in Iowa because they can land good jobs that pay well, and allow them to enjoy a great quality of life.

Our children deserve our best efforts because this is our opportunity. This is our Iowa.

Lastly, I wish to speak to you about an issue that stands at the heart of our Iowa quality of life and is so personally important to me.

That issue is the health and well-being of each and every Iowan and my desire to make Iowa the healthiest state in the nation.

As a former President of one of Iowa's medical teaching universities, I marveled at the progress modern medicine has made to save and lengthen lives.

Yet, while we are living longer lives I have to ask are we living better lives?

The obesity epidemic and onset of more and more chronic disease stretches the capacity of our medical system to meet our needs and stretches the ability of taxpayers to support programs such as Medicaid.

This is why we have embarked on the ambitious public-private partnership to make Iowa the healthiest state in the nation.

We have an opportunity to make Iowa communities vibrant by ensuring they have the health care professionals needed to keep their residents healthy. And why shouldn't doctors choose to live and work in Iowa?

Yet, in the past decade Iowa has fallen further and further behind in active physicians per 100,000 residents. Sure, we are behind states like Massachusetts and Michigan.

But we are also trailing neighboring rural states like South Dakota and Nebraska. Iowa is 46th in the nation in internal medicine, 47th in the nation in pediatric, 48th in psychiatry and last in both emergency medicine and obstetrics and gynecology.

We are home to two great medical schools—the University of Iowa and Des Moines University.

In fact, we have over 1,500 medical students currently enrolled in these institutions. But we are not doing enough to keep them here.

Today, I am proposing three initiatives intended to keep Iowa and Iowans healthy by keeping doctors in our communities.

First, my budget proposes two million dollars to support medical residency programs in Iowa.

Last year, we came together and created a public-private partnership to help doctors serving rural areas repay their costly loans. My second proposal provides two million dollars to launch the Rural Physician Loan Repayment Program and expand it to include OB-GYN and emergency medicine doctors as well as primary care physicians.

My third proposal is for us to come together and pass a Certificate of Merit law and a cap on non-economic damages.

Keeping doctors in Iowa requires we make our state a place that is friendly to those who practice medicine.

The first oath taken by a doctor is to do no harm. No group of people is more committed to protecting patients than our Iowa doctors.

Frivolous lawsuits are harming our ability to recruit and retain doctors.

A Certificate of Merit simply requires a medical expert review the facts of a case when a lawsuit is filed and verify that the injuries could have come from substandard care. This lets real claims move forward and takes the weight of bad claims off the health care and judicial systems.

These are sensible reforms. And we know they work because states with these laws have more doctors and lower insurance costs than we do.

It is our responsibility—mine and yours—to work together to offer these generational gifts:

- the best education,
- a thriving marketplace where start-ups are competing to create jobs for all Iowans,
- coupled with responsible and measured leadership from each of us to promote and enhance what is right with Iowa to reach our full potential.

This is our opportunity. This is our Iowa.

It is the promise of a good people, who demand a good government, and expect the men and women serving in that government to put aside their differences and come together to make good public policy.

It is the promise of providing hardworking parents the ability to give their children a world-class education.

It is the promise of a way of life that provides opportunities to thrive in the heartland of America.

The condition of our state is strong and is growing stronger by the day.

We stand at a place in history where many other states are burdened with debt and looming uncertainty while Iowa is well positioned for unprecedented growth.

While some states across this country are choking the opportunities right out of their states through over-taxation and over-regulation, Iowa is like a lighthouse, beaming a bright light of opportunity to those seeking a better life within our borders.

Let us turn the page and write a new chapter in Iowa's history.

A chapter which reflects how a people of good character and a common purpose, who were genuinely committed to working together, provided the dynamic solutions that led to the best times in our state's long and proud history.

- A chapter that will hail the unprecedented growth of job opportunities and rise in family incomes for all Iowans.
- A chapter that celebrates the fact every Iowa child has access to the best education in the world.
- A chapter that affirms how Iowans' quality of life reached new heights, as our citizens became the healthiest in the United States.

This is the chapter in our history that you and I, each and every one of us in this chamber, have the opportunity to write. So let's write it well and write it together.

This is our opportunity. This is our Iowa.

Thank you. God bless you and God bless the people of Iowa.